

ROBINSON, FARMER, COX ASSOCIATES

Certified Public Accountants

A Professional Limited Liability company

Date: October 4, 2002

Memorandum To: G. Robert Lee, County Administrator
County of Fauquier, Virginia

From: Robinson, Farmer, Cox Associates

Regarding: FY 01-02 Audit

In planning and performing our audit of the financial statements of the County of Fauquier, Virginia for the fiscal year ended June 30, 2002 we considered the County's internal control structure to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we noted certain matters involving the internal control structure and other operational matters that are presented herewith for your consideration. This letter does not affect our report dated October 4, 2002 on the financial statements of the County of Fauquier, Virginia. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control structure or result in other operational efficiencies. We do not believe that the following matters are material weaknesses in the internal control structure or reportable conditions; however, they are noted here primarily for your information and consideration.

We will be pleased to discuss these comments in further detail at your convenience, to perform an additional study of these matters, or to assist you in implementing the recommendations and request your reply to corrective action initiated.

The Financial Reporting Model

In June 1999, the Governmental Accounting Standards Board issued Statement Number 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The implementation of the requirements of this statement will significantly impact local governments, auditors and users of local government financial statements. Local governments will be required to present financial statements and required supplemental information as follows:

- Management' discussion and analysis;
- Government-wide financial statements;
- Fund financial statements;
- Notes to the financial statements; and
- Required supplemental information, including budgetary comparison schedules and other data previously required.

The focus of the financial reporting will be on the government-wide financial statements presenting financial information for the government "as a whole", rather than on individual fund financial statements. Certain reconciliations will be required within the report to relate the fund financial statements with the government-wide financial statements. Additionally, infrastructure fixed assets, which have been previously omitted from financial statements, will now be required to be recorded and some measurement of depreciation recorded.

We recommend that the County review and develop a plan for implementation so that the efforts for implementing this new reporting model can be minimized. The plan should address at a minimum the following areas:

- Definition of Major and Non-Major Funds
- Accounting for Capital Assets and Depreciation Expense
- Accounting for Joint Tenancy Assets
- CAFR Changes / Revisions

Uniform Accounting System for Expenditures

During the course of our audit it has been noted some expenditures object classes were incorrectly classified within the accounting system based upon the chart of accounts recommended by the Auditor of Public Accounts. Examples of these include dues recorded as other operating supplies and or recreational supplies, and ADP equipment recorded as repairs and maintenance. We also have observed several comprehensive maintenance line items recorded in the Capital Improvement Fund, which appear to conflict with purpose and intent of the Capital Improvement Program. In September of the current year various County and School Board officials formed The Act Committee to develop a uniform chart of accounts for all expenditures. We suggest the committee to develop a comprehensive chart of accounts for the capital improvement fund in order to segregate capital projects from capital outlays. With GASB 34 now in effect it is important to develop a chart of accounts which will assist in capturing information necessary to insure that capital asset additions are properly recorded in the financial statements in a clear, concise, efficient manner.

Timely Payment of Bills/ Income Taxes

During the course of our audit we have observed that federal income taxes for the third quarter of 2000 were not properly transmitted to the IRS, in accordance with their regulations. The County was required to pay a penalty and interest. Further we found the County had paid late charges to the Fauquier County Water & Sanitation Authority for several water bills. We recommend the County take appropriate action to insure timely payment of all claims and taxes to avoid payment of penalties and interest.

Repeat Comment - Accounting System Controls

The accounting system, as implemented, is designed to provide adequate internal controls over financial management information. These controls include the separation of this financial information within the accounting system. We believe there are improvements which should be made in this area. For example, fixed asset additions and deletions.

We recommend the County implement a comprehensive policy and procedures manual to strengthen internal controls. This manual should encompass such issues as documentation of individual job responsibilities and descriptions to support various personnel functions interdepartmentally and within the finance departments. Cross-training of personnel should be implemented to ensure continuous and uninterrupted operational support. Further, an accounting policy and procedures manual should be developed defining all accounting functions within the accounting system. Adequate professional and clerical staff support should be reviewed on a periodic basis to assure the timeliness of recording, reconciling, summarizing, analyzing and interpreting financial transactions. The quality of the County's professional staff should be knowledgeable in all phases of the accounting system. All of these suggestions are core requirements of a good system of internal accounting control.

Year End Accounting and Reporting

We recommend the Finance Department carefully review external reporting deficiencies in preparing for the annual audit and in generating external financial reports. The Government Finance Officers Association issued 17 comments, several of which were considered "Serious Reporting Deficiencies" in its' review of the June 30, 2001 CAFR. We also recommend the Department review prior year financial statement adjustments in preparing its internal reports for audit. This year, consistent with prior audits, adjustments were required to the County's financial records for property taxes receivable and deferred revenue, long-term debt, due from other governments, amortization of bond issue costs, and several other items. In addition the Comparative Cost Report contained a number of required adjustments and detailed reconciliation efforts before it could be submitted to the Auditor of Public Accounts. We recommend the Department take appropriate measures to resolve prior year reporting deficiencies to insure the accuracy of internally generated financial reports.

Use of Journal Entries

During the course of our audit we have observed the Treasurer's Office is preparing journal entries to record bank transfers and in recording selected federal revenues. We recommend the use of automated interfaces in the general ledger accounting system where feasible to reduce paperwork and improve productivity.

We have observed the use of journal entries by the Finance Department to record general fixed asset additions and deletions. We believe this process is inefficient and encourage use of alternative mechanisms, such as excel spreadsheet, to assist in the reconciliation of general ledger control accounts. If the Department desires the use of journal entries we recommend the use of automated interfaces in lieu of the manual recording of these items.

Deferred Compensation Fund

The Finance Department currently records activity of the deferred compensation plan on a quarterly basis in the accounting system based on information provided by the program administrator. Financial reporting requirements for plans administered by outside parties changed in 1996 and they are no longer required to be reported on the County's balance sheet. As such we recommend appropriate adjustments be made to remove this fund from the accounting system.